BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NOS. 89-6-E & 90-7-E - ORDER NO. 90-503

MAY 31, 1990

IN RE: South Carolina Electric and Gas Company - Semi-annual Review of Base Rates for Fuel Costs.	)))	ORDER APPROVING BASE RATES FOR FUEL COSTS

On April 27, 1989, the Commission issued its Order No. 89-348 in Docket No. 89-5-E whereby the Commission, inter alia, proceeded with the statutory method utilized for the recovery of the costs of fuel used in electric generation by South Carolina Electric and Gas Company (SCE&G or the Company) to provide service to its retail electric customers. The procedure followed by the Commission is set forth in the South Carolina Code of Laws, §58-27-865 (Cum. Supp. 1989).

On September 28, 1989, SCE&G filed a Motion for Continuance in the above-captioned matter. SCE&G stated that it would be beneficial to its customers to maintain the current level of rates at least until the next semi-annual proceeding. SCE&G requested that the scheduled October 25, 1989, hearing be continued until April of 1990. SCE&G asserted in its Motion for Continuance that if a continuance were granted, then the semi-annual hearing to be conducted in April 1990, would then involve information concerning

SCE&G's historical fuel costs for the period beginning in March 1989. No party filed an objection to SCE&G's Motion for Continuance.

The hearing previously scheduled for October 25, 1989, was continued until April 1990. Discovery proceeded during this period. The fuel factor remained at 1.475 cents per kilowatt hour. All matters relating to prudency or fuel practices were to be reviewed at the April 1990 hearing for the prior twelve (12) month period, including deferred accounts. Any under or over recovery of fuel costs for the prior 12 months were also to be addressed at the April 1990 hearing.

Therefore, pursuant to notice duly given in accordance with the applicable provisions of law and with the Commission's Rules of Practice and Procedure, a public hearing in the instant proceeding was held in the Offices of the Commission on April 25, 1990. Robert T. Bockman, Esquire, represented the Company; Nancy J. Vaughn, Esquire, represented the Intervenor, the Consumer Advocate of South Carolina; and Sarena D. Burch, Staff Counsel, represented the Commission Staff. The record before the Commission consists of the testimony of four witnesses on behalf of the Company, three witnesses on behalf of the Commission Staff, and three exhibits.

The Consumer Advocate at the beginning of the hearing made an oral motion for a continuance. The Consumer Advocate sent the Company a set of interrogatories, some of which requested information which the Company would not provide without the execution of a confidentiality agreement because it believed the information requested was confidential.

On December 18, 1989, the Consumer Advocate filed with the Commission a Motion to Compel requesting the Commission to order the Company to provide responses, some of which requested copies of SCE&G rail and coal contracts, without the execution of a confidentiality agreement.

On December 27, 1989, SCE&G filed a Return to that Motion stating the rail and coal contracts were confidential and that they should be protected from disclosure. On January 26, 1990, SCE&G filed a Motion for Protective Order and the Consumer Advocate filed a Response to SCE&G's Motion January 30, 1990. By Order No. 90-177, dated February 22, 1990, and received by the Consumer Advocate March 2, 1990, the Commission ruled the contracts were confidential and required the Consumer Advocate and his consultants to sign a confidentiality agreement. This ruling did not interfere with the Consumer Advocate's reviewing the documents but required the Consumer Advocate to sign a confidentiality agreement first.

The Consumer Advocate and SCE&G attempted to draft a confidentiality agreement which protects the information from disclosure but reached an impasse with respect to one issue. The Consumer Advocate proposed to protect his right of appeal of the Commission's Order No. 90-177 by incorporating into the agreement certain clauses. SCE&G would not agree to include these clauses.

On March 12, 1990, the Consumer Advocate filed a Petition for Reconsideration of Order No. 90-177, requesting that the Commission require SCE&G to release the information to the Consumer Advocate without the Consumer Advocate having to sign an agreement or in the alternative to require SCE&G to sign an agreement which would contain language protecting the Consumer Advocate's right to appeal.

The Commission denied the Consumer Advocate's Petition for Reconsideration of Order No. 90-177, by Order No. 90-335, dated March 28, 1990, noting that the denial of the rehearing did not affect the Consumer Advocate's right to appeal.

Due to the failure to agree to the content of the confidentiality agreement, the Consumer Advocate stated that it was unable to get information which is necessary to analyze the Company's coal purchasing practices and procedures.

The Consumer Advocate stated that it was presently drafting and would be filing with the circuit court a Petition for Judicial Review of Order Nos. 90-177 and 90-335, requesting the court reverse the Commission's decision to require the Consumer Advocate to sign a confidentiality agreement in order to obtain the coal and rail contracts.

Until the court rules on this matter, the Consumer Advocate stated that it was precluded by the Commission's decision from adequately representing consumers in this matter and therefore requested a continuance of the hearing scheduled for April 25, 1990, until the appeal of the Consumer Advocate is resolved. The Commission denied the continuance. The Consumer Advocate chose not to review the documents and therefore the hearing should not be delayed.

Based on the evidence in the record, the Commission makes the following findings and conclusions:

1. The Company and Staff testified that for the period from March 1989 through February 1990, the Company's actual total fuel cost for its electric operations amounted to $221,045,100.

2. Staff reviewed and compiled a percentage generation mix statistic sheet for the Company's fossil, nuclear and hydraulic plants for March 1989 through February 1990. The fossil generation ranged from a high of 85% in March, 1989 to a low of 46% in November 1989. The nuclear generation ranged from a high of 48% in November 1989 to a low of 6% in March 1989. The percentage of generation by hydro ranged from 6% to 9%.

3. During the March 1989 through February 1990 period, coal suppliers delivered 4,493,122 tons of coal at the weighted average received cost per ton of $41.92, according to the testimony of the Company and Staff. The Commission Staff's audit of the Company's actual fuel procurement activities demonstrated that the average monthly received cost of coal varied from $40.85 per ton in August 1989 to $42.66 per ton in January 1990.

4. The testimony of the Company and the Staff was that during the March 1989 through February 1990 period, the Company received 3,767,471 gallons of No. 2 fuel oil at a weighted average cost of $.63 per gallon. The Company received 2,087,667 mcf of natural gas for use in electric generation at a weighted average cost of $2.43 per mcf.

5. The Commission Staff conducted an extensive review and audit of the Company's fuel purchasing practices and procedure for the subject period.

6. The approval of the currently effective methodology for recognition of the Company's fuel costs requires the use of projected or anticipated costs of fuel. The Commission recognizes the fact inherent in the utilization of a projected average fuel cost for the establishment of the fuel component in the Company's base rates that variations between the actual costs of fuel and the projected costs of fuel would occur during the period and would likely exist at the conclusion of the period. Section 58-27-865, supra, establishes a procedure whereby the difference between the base rate fuel charges and the actual fuel costs would be accounted for by booking through deferred fuel expenses with a corresponding debit or credit.

7. The testimony of the Company and Staff indicates that the comparison of the Company's fuel revenues and expenses for the period March 1989 through April 1990 produces an under-recovery of

$8,347,660. This under-recovery represents approximately 3.95% of the fuel costs allocated to the Company's retail electric operations for the period May 1989 through April 1990.

8. The Company testified that the gross amount of the Westinghouse Fuel Settlement Credits is $9,980,239 as of February, 1990. The allocation of these credits is based on projected fuel costs for the period May 1990 through October 1990. The Commission finds, based on the testimony of SCE&G witness Byrd, that these credits will reduce the fuel costs which will help stabilize the base fuel rate and significantly reduce the cumulative undercollection amount. Any future Westinghouse Fuel Settlement Credits should be used as they are received to reduce fuel costs. The Commission finds that it is in the best interest of the ratepayers for the Company to use the Westinghouse credits to reduce fuel costs in the present and the future.

9. The Company testified that its projected average fuel expense for the May 1990 through October 1990 period is 1.563 cents per KWH. However, when adjusted by the under-recovery of 0.109 cents per KWH through April 1990 and the Westinghouse Fuel Settlement Credits of 0.123 cents per KWH (reduction to expenses), a total fuel cost of 1.549 cents would be required to produce virtually no cumulative variance between the average projected fuel costs and actual fuel costs at the conclusion of the six month period ending October 31, 1990.

10. The Staff considers that the Commission's intent in the establishment and continuation of the fuel cost recovery mechanism was to maintain a relative balance between actual and projected fuel costs and sales over the long run. In order to allow utilities to recover prudently incurred fuel costs "in a manner that tends to insure public confidence and minimize abrupt changes in charges to consumers," pursuant to §58-27-865 (F), the Staff recommended that the fuel component in the base rates be set at 1.5250 cents per KWH.

11. Based on the evidence submitted by SCE&G on rebuttal, the Commission rejects the adjustment of Staff witness Sheely to the "over-under recovery account" to reduce expenses for retail operations of $154,864. The Commission finds that it was reasonable for SCE&G to believe, at the time, that the work to be done on July 11 was low risk based on the testimony of SCE&G witness Skolds. Witness Skolds testified that in accordance with SCE&G's normal procedure when this work was planned, engineering drawings were used to research the technical aspects of this job. The drawings did not indicate that the AC power supply fed the control circuits which caused the turbine trip. Without this knowledge, the Company believed that the work posed no risk to the plant's availability. Although the Staff's adjustment was rejected, the Commission commends the investigation of the Commission Staff of the outages and directs the Staff to continue to perform thorough investigations of the plant outages of the Company.

12. The Commission finds, based on the recommendation of the Commission Staff, that effective commencing with the Company's May billing cycles, based upon the projected fuel costs and energy sales through the next six months, the operation of a fuel component of 1.525 cents per KWH will produce a cumulative under-recovery of fuel costs in an amount of $1,825,310 for the period ending October 31, 1990.

13. The adoption of the fuel cost level herein reasonably reflects the projected average costs of fuel for the entire period and will likewise serve to encourage the Company to continue its efforts in the exercise of reasonable prudence and efficiency in its fuel purchasing practices.

14. Our determinations should provide the Company a reasonable opportunity to recover the costs of fuel which it will incur throughout the succeeding period, consistent with the express purpose of §58-27-865, supra.

IT IS THEREFORE ORDERED:

1. That a fuel component of 1.525 cents per KWH be, and hereby is, approved for South Carolina Electric and Gas Company, effective commencing with the Company's May 1990 billing cycles.

2. That the inclusion of the Westinghouse fuel credits to offset fuel expenses in the next six months (May-October 1990) is hereby approved.

3. That the adjustment proposed by the Commission Staff to the "over-under recovery account" is hereby denied.

4. That South Carolina Electric and Gas Company file with the Commission for approval, within ten (10) days of the date of this Order, rate schedules designed to incorporate our findings herein, and an Adjustment for Fuel Costs, as demonstrated in Appendix A, attached hereto and incorporated by reference.

5. That the Company comply with the Notice requirements set forth in S.C. Code Ann., §58-27-865 (A) (Cum. Supp. 1989).

6. That the Company continue to file the monthly reports previously required in this Docket.

7. That the Company account monthly to the Commission for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit.

8. That the Company submit monthly reports to the Commission of fuel costs and scheduled and unscheduled outages of generating units with a capacity of 100 MW or greater.

9. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Caroline H. Maass

Chairman

ATTEST:

Charles W. Ballentine

Executive Director

(SEAL)

APPENDIX A
DOCKET NOS. 89-6-E & 90-7-E
ORDER NO. 90-503
MAY 31, 1990

SOUTH CAROLINA ELECTRIC & GAS COMPANY

ADJUSTMENT FOR FUEL COSTS

APPLICABILITY

This adjustment is applicable to and is a part of the Utility's South Carolina retail electric rate schedules.

The Public Service Commission has determined that the costs of fuel in an amount to the nearest one-thousandth of a cent, as determined by the following formula, will be included in the base rates to the extent determined reasonable and proper by the Commission for the succeeding six months or shorter period:

$$F = \frac{E}{S} + \frac{G}{S_1}$$

Where:

F = Fuel cost per kilowatt-hour included in base rate, rounded to the nearest one-thousandth of a cent.

E = Total projected system fuel costs:

(A) Fuel consumed in the Utility's own plants and the Utility's share of fuel consumed in jointly owned or leased plants. The cost of fossil fuel shall include no items other than those listed in Account 151 of the Commission's Uniform System of Accounts for Public Utilities and Licensees. The cost of nuclear fuel shall be that as shown in Account 518 excluding rental payments on leased nuclear fuel and except that, if Account 518 also contains any expense for fossil fuel which has already been included in the cost of fossil fuel, it shall be deducted from this account.

Plus

(B) Purchased power fuel costs such as those incurred in unit power and Limited Term power purchases where the fossil fuel costs associated with energy purchased are identifiable and are identified in the billing statement

Plus

(C) Interchange power fuel costs such as Short Term. Economy and other where the energy is purchased on an economic dispatch basis.

Energy receipts that do not involve money payments such as diversity energy and payback of storage energy are not defined as purchased or interchange power relative to this fuel calculation.

Minus

(D) The cost of fossil fuel recovered through intersystem sales including the fuel costs related to economy energy sales and other energy sold on an economic dispatch basis.

Energy deliveries that do not involve billing transactions such as diversity energy and payback of storage are not defined as sales relative to this fuel calculation

S = Projected system kilowatt-hour sales excluding any intersystem sales.

G = Cumulative difference between jurisdictional fuel revenues billed and fuel expenses at the end of the month preceding the projected period utilized in E and S.

S_1 = Projected jurisdictional kilowatt-hour sales for the period covered by the fuel costs included in E.

The appropriate revenue related tax factor is to be included in these calculations.

The fuel cost F as determined by the Public Service Commission of South Carolina's Order No. 90-503 for the period May 1990 through October 1990 is 1.525 cents per KWH.